

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 25, 2017

Volume 10 Issue 141

Market Overview



Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr / SOMA Swing
Long	100% Long XIV	Short

Tonight's Research Points

- The 3-day pullback has a lot going for it suggesting an upside edge, including the quiet action on the pullback and the fact that is coming from a high level.
- Tuesday's action could have a substantial impact on the Fed Day edge for Wednesday.

Short-term Outlook

The Bottom Line

Evidence is bullish and the market is oversold with some room to the upside. I'm looking to take on some long exposure in anticipation of a bounce.

Summary of Recent Active Studies (see Letters from listed dates for details)

Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
Active - Short Term						
July 25, 2017	Dn 3 days from 20-high. Offset HV < 0.25	1-2 days	Bullish			
Active - Long Term						
July 20, 2017	RSI2 crosses over 99. SPX > 200ma.	1-15 days	Bullish	2.30%	-1.40%	-2.70%
July 17, 2017	NASDAQ Leading	int term	Bullish			
June 24, 2017	Hindenburg Omen cluster	1-35 days	Bearish	-7.00%		
June 2, 2017	SPX closes above 50-day Bollinger Band	1-50 days	Bullish	4.90%	-4.10%	-7.80%
April 26, 2016	Golden Cross	int term	Bullish			
November 3, 2014	Quantitative Easing Ends	int term	Bearish			
July 22, 2013	New High Divergence (Study of Tops)	int term	Bearish			

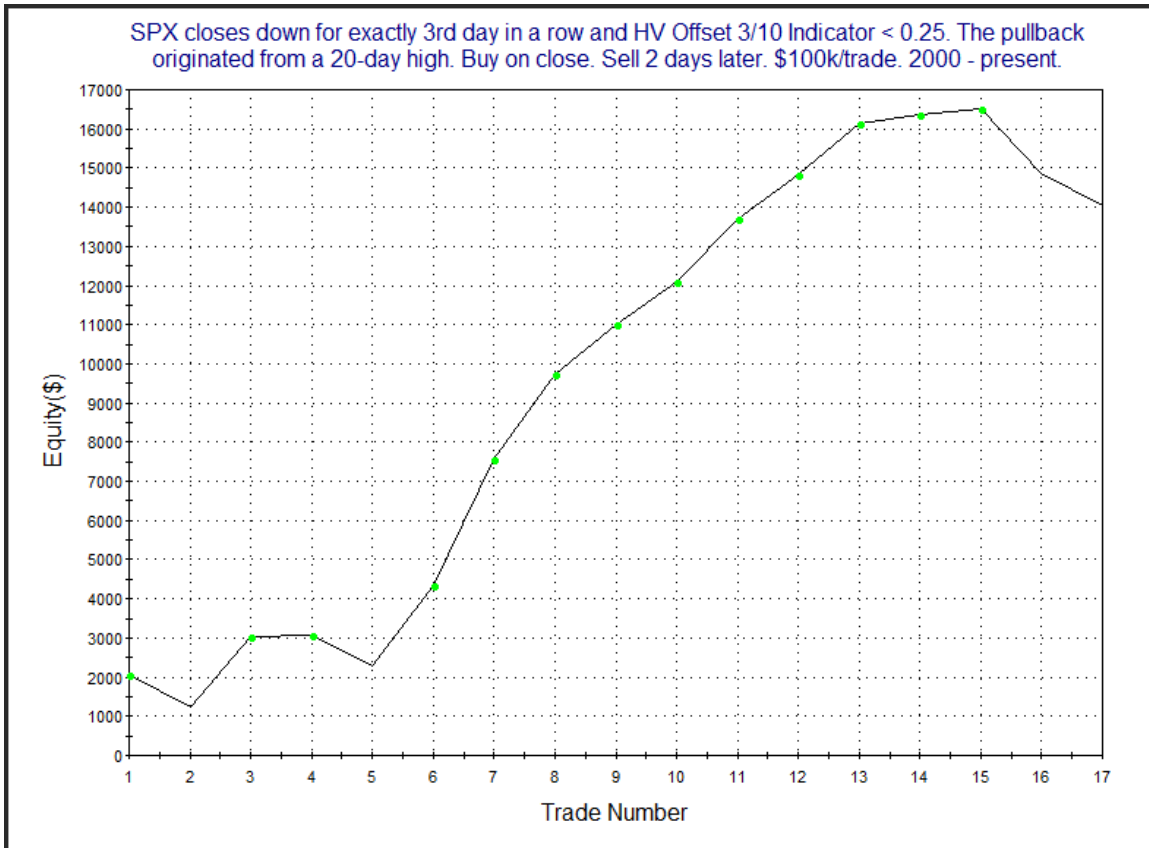
The Evidence

Monday was a mixed day for the market. The SPX closed down for the 3rd day in a row with a decline of 0.1%, but the NASDAQ rallied 0.36% and closed at an all-time high, and the Russell 2000 rose 0.15%. Breadth was negative as the NYSE Up Issues % was 43% and the Up Volume % came in at 41%. NYSE volume came in lower as it typically does after Opex Friday.

Three-day pullbacks for SPX will often trigger some bullish studies. And that was the case on Monday night. The most compelling of those studies was the one below. It considered the facts that 1) the pullback is coming off an intermediate-term high and 2) it occurred on very low volatility as shown by the Quantifiable Edges 3/10 Offset HV calculation. The study was last seen in the 5/14/15 and has been updated.

SPX closes down for exactly 3rd day in a row and HV Offset 3/10 Indicator < 0.25. The pullback originated from a 20-day high. Buy on close. Sell X days later. \$100k/trade. 2000 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	13,589.21	17	11	6	64.71	2,116.21	4,674.00	-1,614.86	-3,579.52	1.31	2.40	799.37
4	15,136.33	17	10	7	58.82	2,147.86	3,783.20	-906.03	-2,501.81	2.37	3.39	890.37
3	13,474.41	17	10	7	58.82	1,787.41	3,576.02	-628.53	-1,438.78	2.84	4.06	792.61
2	14,058.81	17	13	4	76.47	1,391.94	3,212.80	-1,009.11	-1,621.97	1.38	4.48	826.99
1	7,042.47	17	12	5	70.59	856.21	2,861.60	-646.42	-1,057.50	1.32	3.18	414.26
16 of 17 instances (94%) closed above the entry price at some point in the next week.												

The numbers appear quite strong. Below is a look at the profit curve.



The last 2 instances have struggled a bit, but this still appears to suggest an upside edge. I believe it is worth taking under consideration and have added it to the Active List.

There were also some 3-day pullback studies that considered the fact that we are entering a potential Turnaround Tuesday. Those did not look as appealing, since they struggled some in recent years.

But it is notable that Wednesday is a Fed Day. Fed Days have historically shown a bullish inclination. One of the more compelling studies I featured in *The Quantifiable Edges Guide to Fed Days* examined Fed Day performance based on the quartile that the SPY closed in of the daily range on the day before the Fed Day. The basic finding was that the worse the close, the better the Fed Day edge. I last updated the studies by quartile in the 6/13/17 letter. Below are the 4 quartiles from highest to lowest in the daily range. All are updated.

Tomorrow is a Fed Day. SPY closes in the top 25% of its daily range.
Buy on close. Sell next day's close. \$100k/trade. 1993 - present.

TradeStation Performance Summary Expand ▾			
All Trades			
Total Net Profit	\$7,522.80	Profit Factor	1.31
Gross Profit	\$31,671.93	Gross Loss	(\$24,149.13)
Total Number of Trades	79	Percent Profitable	48.10%
Winning Trades	38	Losing Trades	39
Even Trades	2		
Avg. Trade Net Profit	\$95.23	Ratio Avg. Win:Avg. Loss	1.35
Avg. Winning Trade	\$833.47	Avg. Losing Trade	(\$619.21)
Largest Winning Trade	\$2,238.25	Largest Losing Trade	(\$2,739.69)

Tomorrow is a Fed Day. SPY closes > 50% and <= 75% of the daily range.
Buy on close. Sell next day's close. \$100k/trade. 1993 - present.

TradeStation Performance Summary Expand ▾			
All Trades			
Total Net Profit	\$15,899.23	Profit Factor	2.13
Gross Profit	\$29,912.99	Gross Loss	(\$14,013.76)
Total Number of Trades	45	Percent Profitable	55.56%
Winning Trades	25	Losing Trades	19
Even Trades	1		
Avg. Trade Net Profit	\$353.32	Ratio Avg. Win:Avg. Loss	1.62
Avg. Winning Trade	\$1,196.52	Avg. Losing Trade	(\$737.57)
Largest Winning Trade	\$4,704.07	Largest Losing Trade	(\$2,246.40)

Tomorrow is a Fed Day. SPY closes > 25% and <= 50% of the daily range.
Buy on close. Sell next day's close. \$100k/trade. 1993 - present.

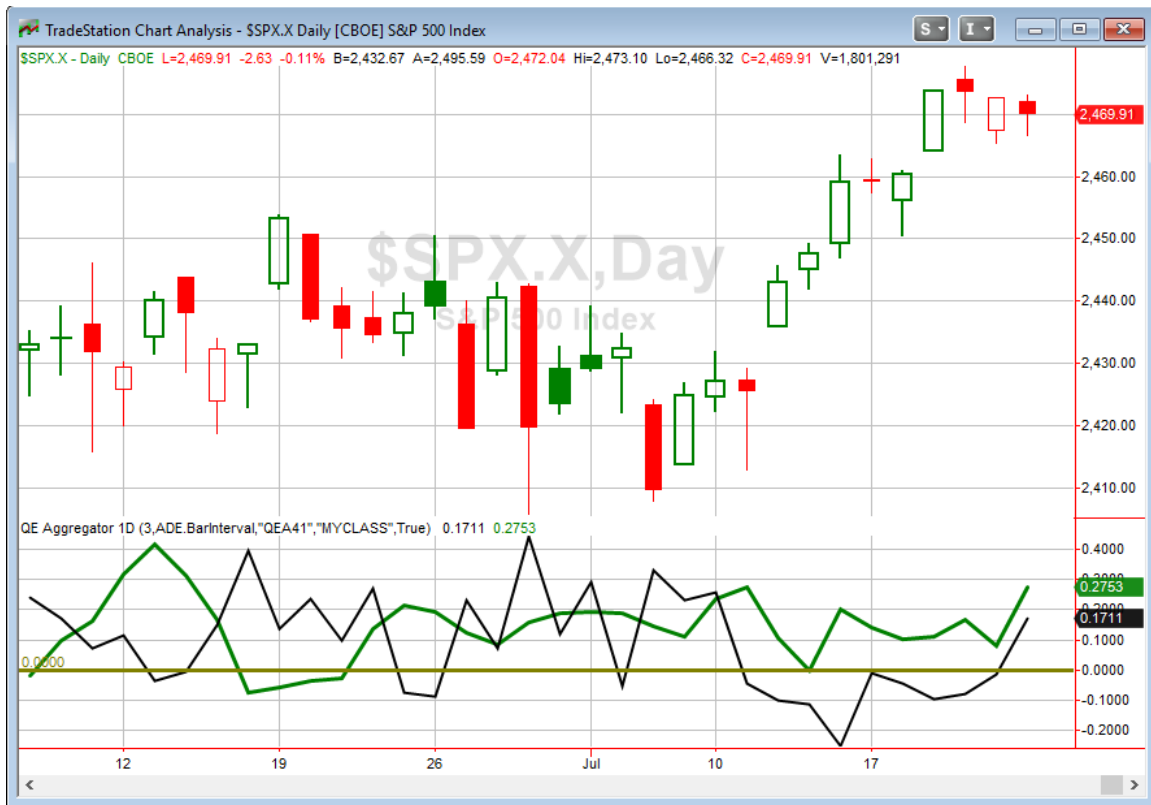
TradeStation Performance Summary Expand ▾			
All Trades			
Total Net Profit	\$11,827.93	Profit Factor	2.35
Gross Profit	\$20,562.40	Gross Loss	(\$8,734.47)
Total Number of Trades	33	Percent Profitable	69.70%
Winning Trades	23	Losing Trades	10
Even Trades	0		
Avg. Trade Net Profit	\$358.42	Ratio Avg. Win:Avg. Loss	1.02
Avg. Winning Trade	\$894.02	Avg. Losing Trade	(\$873.45)
Largest Winning Trade	\$2,943.00	Largest Losing Trade	(\$2,066.62)

Tomorrow is a Fed Day. SPY closes > 25% and <= 50% of the daily range.
 Buy on close. Sell next day's close. \$100k/trade. 1993 - present.

TradeStation Performance Summary Expand ▾			
All Trades			
Total Net Profit	\$23,650.08	Profit Factor	4.54
Gross Profit	\$30,332.77	Gross Loss	(\$6,682.69)
Total Number of Trades	38	Percent Profitable	76.32%
Winning Trades	29	Losing Trades	9
Even Trades	0		
Avg. Trade Net Profit	\$622.37	Ratio Avg. Win:Avg. Loss	1.41
Avg. Winning Trade	\$1,045.96	Avg. Losing Trade	(\$742.52)
Largest Winning Trade	\$4,645.80	Largest Losing Trade	(\$2,945.28)

What was true 7 years ago when I first devised this study holds true today: the worse the close, the better the edge. So traders will want to keep this in mind as we approach the close on Tuesday. It should also be noted that the bullish inclinations of Fed Days have basically played out prior to the actual Fed announcement. Additional volatility can be expected after the announcement, which introduces some more risk.

I have updated the Aggregator chart below.



With tonight's evidence considered, the green Aggregator line held above zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile, the black Differential Line moved above 0. The positive Differential Line reading means SPX is oversold versus recent expectations. So expectations are positive and SPX is oversold. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close above 0. Therefore, the Aggregator signal turned long at the close.

Based on the current active studies, expectations are set to remain bullish on Tuesday. Of course compelling new bearish studies could easily change this. The Differential Pivot will be 2482.91 on Tuesday. That is 0.5% above Monday's close. So SPX would need to close up at least 0.5% on Tuesday in order to move from oversold to overbought versus expectations.

So we have some indications that the current pullback is likely to see a bounce soon. And if it does not close well on Tuesday, that could set up a Fed Day rally. There is also ample room to the upside before SPX would turn back to overbought. The edge is not overwhelming, but it does appear to be compelling enough that I am interested in taking on some long index exposure.

Intermediate-term Outlook (2 weeks – 2 months) – updated 7/24 – bullish

The intermediate-term outlook was last updated in the 7/24 Letter. It can be found in the most recent weekly letter on the website.

<http://quantifiableedges.com/current-weekly-letter/>

Catapult and Capitulative Breadth Statistics

Catapult & CBI Presentation Link

Open Catapult Triggers

None

Broad Market Large Cap CBI – 0

Additional New Trade Ideas

A full listing of system triggers can be found at the [numbered systems page](#) each night. I will cherry pick some of my favorite setups from the S&P 100 and ETF lists along with occasional other trade ideas to track below.

SPY – buy 1/4 index position @ \$246.83 LIMIT. Based on the short-term outlook above, I would like to start scaling into an index position.

Current Open Trade Ideas

None.

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